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EB/ESC/TFS FOR GGLASS AND NROTHSTEIN; S/CT FOR SFOX; IO/PHO FOR APEREZ; NSC FOR GPETERS; TREASURY GENERAL COUNSEL DAUFHAUSER; OFAC DIRECTOR RNEWCOMB; TREASURY JZARATE; TREASURY TASK FORCE ON TERRORIST FINANCING; PARIS FOR PETER KUJAWINSKI

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SUBJECT: TERRORIST FINANCE: OFAC/STATE TEAM MEETS KUWAITI OFFICIALS, CHARITIES

REF: A. KUWAIT 3140 B. KUWAIT 1083

Classified By: AMBASSADOR RICHARD JONES FOR REASONS 1.5(B) and (D)

1. (S/NF) SUMMARY. Treasury's Office of Foreign Assets Control (OFAC) and a State Department representative met with Kuwaiti officials 4-5 October to encourage a joint USG-GOK investigation of suspicious charities, discuss the status of frozen Iraqi assets, and inform the GOK of money transfers taken on behalf of Lajnat Al-Dawa Al-Islamiya (LDI) by the Social Reform Society (SRS) through the Kuwait Finance House (KFH). Additionally, the team sought an update from the GOK on anti-terrorist finance efforts in Kuwait. This cable, the first of two on the visit, reports on terrorist finance developments. The issue of frozen Iraqi assets will be reported septel. The delegation (members listed in paragraph 2 below), accompanied by Ambassador, met with the Ministers of Finance, Foreign Affairs, and Social Affairs and Labor; the head of the Office of Charitable Oversight and Supervision in the Ministry of Social Affairs and Labor; the Deputy Governor of the Central Bank; and representatives of local charitable organizations (at the charities' request). The Deputy Governor of the Central Bank detailed the regulatory changes that the GOK has implemented to bring Kuwait in compliance with FATF and USG recommendations (ref A). The GOK was unaware of the transactions involving LDI but pledged to investigate them, pending receipt of additional details from the USG. Officials were mostly receptive to the idea of joint US-GOK investigations of charitable organizations. During the meeting with the charities, the groups' representatives appealed to the delegation for details on why LDI was designated as a terrorist organization. The groups were given information about post-designation LDI transactions, which they could not explain. When asked about international branches they denied the existence of all but one, but when OFAC presented evidence of other branches, the recalled there were more. The representatives promised to look into the issues raised during the meeting and to report back. Embassy will continue to monitor the issues addressed during the visit. We look forward to receiving additional specific details on the various USG concerns for further coordination with our Kuwaiti interlocutors. END SUMMARY

2. (U) Treasury's Office of Foreign Assets Control (OFAC) and a State Department representative traveled to Kuwait 3-5 October to discuss terrorist finance issues and the status of frozen Iraqi assets with Kuwaiti officials. This cable, the first of two on the visit, reports on terrorist finance developments; the issue of frozen Iraqi assets will be reported septel. The delegation, led by OFAC Director Richard Newcomb, included Mark Roberts, Daniel Yorks, and Jason Beal from OFAC; and Nicole Rothstein from EB/ESC/TFS. During their stay in Kuwait, the delegation met with the Ministers of Finance, Foreign Affairs, and Social Affairs and Labor; the head of the Office of Charitable Oversight and Supervision in the Ministry of Social Affairs and Labor; the Deputy Governor of the Central Bank; and representatives of local charitable organizations (at the charities' request). Ambassador Richard Jones accompanied the group during all government meetings; EconOff attended as notetaker.

3. (S/NF) The delegation encouraged a joint USG-GOK investigation of suspicious charities (a suggestion first raised by Kuwait's Minister of Foreign Affairs during Newcomb's May 2002 visit to Kuwait), discussed the status of frozen Iraqi assets and informed the GOK of money transfers taken on behalf of Lajnat Al-Dawa Al-Islamiya (LDI) by the Social Reform Society (SRS) through the Kuwait Finance House (KFH). (NOTE. LDI was designated under E.O. 13224 on January 9, 2003 and by the UN following a request by the Government of France. END NOTE.).

(U) CENTRAL BANK

14. (C) On October 5 the delegation met with Deputy Governor Dr. Nabeel Ahmed Al-Mannae and his staff at the Central Bank of Kuwait (CBK). The Deputy briefed the delegation on steps that the bank has taken to combat money laundering and terrorist financing. Specifically, he outlined efforts made to address four key weaknesses that US and Financial Action Task Force (FATF) teams had previously identified in the Kuwaiti financial system: (1) the absence of an anti-money laundering law; (2) the nonexistence of a financial intelligence unit (FIU); (3) the lack of supervision of Islamic financial institutions (especially the Kuwait Finance House, KFH) by a competent state authority; and (4) the paucity of training for and awareness among concerned parties about money laundering and terrorist financing (see Ref A for details).

15. (C) Al-Mannae stressed that the modifications that Islamic financial institutions have undertaken to bring their banks into compliance with Islamic law do not confer upon these institutions the right to conduct practices outside the scope of regular banking. He also noted that to date, all Islamic financial institutions -- including Kuwait Finance House -- have been fully cooperative with CBK freeze orders, even absent the legal obligation to do so. He noted that KFH, the key Islamic bank in Kuwait, would be under CBK regulatory control as of December 2003. Al-Mannae then outlined the steps that CBK has taken to increase awareness of money laundering and terrorist financing issues, including holding extensive meetings with prosecutors (to establish an investigatory mechanism), conducting training sessions for financial institutions' staff, and sending speakers to participate in financial sector and other ministries' conferences. Al-Mannae said that CBK will sponsor a meeting in early 2004 (originally scheduled for this month) that will bring together local bank staff, investment companies, customs officials, and representatives from other GCC countries to discuss money laundering and terrorist finance issues. Finally, CBK has begun briefing the media on new developments, as they consider the media a key component in the awareness-raising process.

16. (C) CBK officials also detailed other financial controls they have implemented. When Kuwait receives a notification of a new freeze order, the MFA directs the CBK to implement the freeze order. That order is passed on to all financial institutions, who must search their records and report their results within one week. If assets are found, they are frozen within days of receipt of the order. As an additional safeguard, CBK will begin on-site examinations to verify that banks are conducting proper investigations. Al-Mannae said that Kuwait now has real-time tracking of all international transfers made through banking institutions, regardless of amount; these transactions are logged into a computerized database. While exchange house transfers of less than KD 3000 (about US \$10,000) are not currently included, CBK has "phase two" plans to require that exchange houses report all transfers in the future.

17. (S/NF) With regard to charitable organizations, the Ministry of Social Affairs and Labor has given CBK a complete list of all recognized and licensed charities, along with a list of people authorized to make transfers on the groups' behalf. These lists have been forwarded to the banks. All licensed charitable organizations must receive permission from the Ministry of Social Affairs and Labor before transferring money out of Kuwait. According to Al-Mannae, any charity work undertaken by other groups is a violation of regulations. The Deputy Governor reported that Kuwaiti banks have found five possible matches of a designated name; they have contacted the MFA for additional information to determine if any of the five matches (he says that this is a common name). The Kuwaitis also found one LDI account valued at about KD 1 million (\$3.3 million) and instructed all banks to freeze the assets. (NOTE: Earlier accounts reported in Ref B indicated that the Kuwaitis had frozen KD 1.4 million, or approximately \$4.6 million. END NOTE.)

18. (S/NF) Newcomb said he was very pleased about the steps the Kuwaitis had taken on banking laws and asset freezing. He then presented the following details of the LDI case, which involves transfers of LDI assets through KFH following LDI's designation in the US. After the UN designated LDI, its parent SRS continued to transfer money to the same recipients through KFH. A US bank reported that KFH made 27 transfers for LDI totaling almost \$2 million after LDI was designated by the USG on January 9, 2003 (NOTE: The Government of France requested that LDI be designated in the UN. The US under E.O. 13224 designated LDI on January 9, 2003 and the UN designated LDI a month later on February 20, 2003. END NOTE.). These transfers include \$1.1 million in transfers to an LDI account at the Al-Falah Bank in Peshawar, Pakistan; five transfers to Mercy International in Switzerland and transfers to individuals and organizations in Indonesia, Malaysia, Hong Kong and Thailand. After the designation by LDI in the UN on February 20 the Social Reform Society (SRS), of which LDI is a subsidiary, made transfers

of over \$1.2 million to the same recipients, again using KFH.

The Deputy Governor thanked the delegation for its cooperation in providing this information, and pressed for as much detail as possible on the transactions. If the transfers occurred after the designation, he vowed, there would definitely be a penalty. Newcomb promised to provide the bank with transaction dates and details. He also suggested that the two governments might want to consult after CBK's investigation, and perhaps make a joint announcement. Newcomb informed the officials that the delegation had consulted with the Ministries of Foreign Affairs, Social Affairs and Labor, and Finance, and agreed to a joint investigation of foreign affiliates and subsidiaries of the Revival of Islamic Heritage Society (RIHS), LDI, SRS and the International Islamic Charity Organization (IICO). He also stressed the need for financial and programmatic controls, proper audits, and personnel controls within charitable institutions, particularly those with overseas branches in locations where there is no real ability to carry out oversight. The Deputy Governor agreed that cooperation is critical for both sides to investigate properly, and cited LDI as a case in point. He said that the GOK had had no previous information that KFH had violated Kuwaiti laws, but that the information provided by the delegation would allow the Kuwaitis to investigate.

(U) MINISTER OF FINANCE

19. (C) Finance Minister Mahmoud al-Nouri opened by remarking positively on his meeting with Treasury Secretary Snow in Dubai during the Arab Finance Ministers' meeting, and on a separate meeting with Undersecretary for Economic, Business and Agricultural Affairs Al Larson regarding the Iraq donors' conference in Madrid. Newcomb congratulated al-Nouri on his recent appointment as minister, and noted his satisfaction with the progress made by the GOK in regulating charities since the September 11, 2001 terrorist attack. Newcomb said that he would like to continue coordinated efforts between the USG and the GOK, particularly the Office of Charitable Oversight and Supervision. The Minister was supportive, adding that most charities in Kuwait have publicly announced that they will cooperate with the new GOK rules regulating charities (affirmations he believes are sincere). To better regulate charitable donations, Al-Nouri said that the GOK is trying to ensure that those individuals receiving charitable donations are on a list approved by the charity's board of directors, to guard against the misuse of funds.

110. (C) Newcomb then inquired about the efficacy of Law 30, which placed Islamic financial institutions under the Central Bank's authority and introduced additional regulatory safeguards to combat money laundering and terrorist financing. Al-Nouri credited the law with providing increased transparency in funds transfers and enhanced control and supervision over charitable donations. He said that prior to 2001, many charitable transfers were based on emotion, with little attention paid to proper record-keeping or oversight; this, he reports, has now changed. Al-Nouri assured the delegation that the GOK would comply with all UN resolutions, and would cooperate with the United States.

(U) MINISTER OF FOREIGN AFFAIRS

111. (S/NF) Newcomb opened the meeting by praising Minister of Foreign Affairs Shaykh Dr. Muhammad Sabah Al-Salim Al-Sabah's suggestion that the two governments work jointly in their investigations, a proposal made during Newcomb's May 2002 visit (in the context of a RIHS investigation). Newcomb told the Minister he had high hopes that the two governments could move forward together. With that, Newcomb raised the Social Reform Society (SRS) and LDI cases, outlining the details of the post-designation transactions. He also suggested that a joint team look into other organizations like IICO. The Minister replied that GOK's primary objective is to ensure that funds from charitable organizations are not being misdirected. He referred the team to the Minister of Social Affairs and Labor for more details on the laws put into place that require more transparency. The Minister added that if these laws are insufficient, the GOK would welcome suggestions as to how to improve them, saying that it is in Kuwait's interest to have these safeguards in place.

112. (S/NF) However, he noted, local charities have been complaining that countries may allege to the United Nations that a particular organization supports terrorism without disclosing the evidence. The charities believe that they are being more transparent, and wonder why their accusers are not as well. The Minister said that the GOK does not want anti-terrorist financing efforts to turn into a witch hunt; rather, the GOK would like to have substantive information

that can be investigated. Newcomb advised the Minister that he hoped to send a team with additional information after Ramadan, to begin an investigation of several charities. With regard to LDI, Newcomb said that there is concrete information that must be examined. In his view, this would be the sort of task that could be carried out jointly. He also informed the Minister that Treasury would be basing an employee at the US Embassy in Bahrain who would have regional responsibility, and would make frequent trips to Kuwait.

13. (C) The Minister asked to what extent the USG was satisfied with steps the Kuwaitis had taken on banking and money laundering issues, noting that they had established a specific unit within the Central Bank to combat money laundering. Newcomb called the steps Kuwait had taken to regulate funds generated by charity bazaars "incredibly important," saying that the regulatory body seems to be doing what it was chartered to do. (NOTE. The government has begun cracking down on unauthorized "charity bazaars," where donations are gathered illicitly. To combat this, and in anticipation of the month of Ramadan -- traditionally the time of heaviest charitable giving -- the Ministry of Social Affairs and Labor is creating inspection teams that will scrutinize charities throughout the country. END NOTE.) Newcomb referred to this as an "impressive step" that is "very important (and) very useful." Shaykh Muhammad sought Newcomb's thoughts on the current status of the banking sector in the Gulf generally. Newcomb said that many positive steps have been taken, although work remains, citing hawala transfers and charities as examples.

14. (C) The Minister then suggested that the delegation meet with some Kuwaiti charities, saying that he had received several calls from them that day, and that they were eager to meet with the delegation. Specifically, the charities wanted to know the reason why LDI was designated as a terrorist organization; the Minister opined that it would only be fair to share the USG's concerns with them directly.

(U) MINISTRY OF SOCIAL AFFAIRS AND LABOR

15. (S/NF) Following their meeting with the Minister of Foreign Affairs, the delegation spoke with Feisal al-Hajji, the Minister of Social Affairs and Labor, and Mohammad Al-Kandari, head of the new Office of Charitable Oversight and Supervision in the Ministry of Social Affairs. Newcomb raised the LDI case, providing details of the transfers. The Minister informed Newcomb that LDI is unlicensed and therefore its activities are illegal. He continued that some other committees working under the umbrella of SRS have had their international activities stopped. He stressed that the GOK is ready to follow up on any transaction made illegally, but that they need more information. The GOK cannot act by guessing, he noted; when they have real information, they can act. Newcomb agreed to provide this information.

16. (C) Newcomb next turned to the issue of RIHS, saying that the USG would like to work with the GOK to investigate the activities of several international branches of RIHS, to see if they are acting properly and, if not, to designate them or take other appropriate steps. Newcomb suggested a follow-up trip after Ramadan, in which a US team would work with GOK authorities to jointly investigate RIHS. Al-Hajji agreed with this proposal. Al-Kandari then provided an update on the actions of the Office of Charitable Oversight and Supervision, which he said is trying to find out how charitable donations are collected and spent. He noted that this will take time, but that the GOK would provide the USG with documents on what had been done in the period leading up to Ramadan (Al-Kandari provided a spreadsheet in Arabic on the spot, specifying the number of unlicensed donations kiosks the Ministry found, on what date, and the organizations running the kiosks). He said charities not in compliance with the law are given a warning and 15 days to rectify the situation. If they do not comply, the Ministry begins court proceedings against the group. The Ambassador inquired about collections in mosques during Ramadan, previously an important source of charitable fundraising. The Minister answered that this is no longer legal, and that his colleagues would be monitoring the mosques.

17. (C) Al-Kandari said that his organization is working with the Ministry of Foreign Affairs and with Kuwaiti embassies abroad to supervise spending of charitable funds. Newcomb asked who is in charge in countries where Kuwait does not have an embassy. Al-Hajji conceded that it was very difficult or impossible to prevent all funds from being transferred for illicit purposes, especially if they are channeled outside the formal banking system. However, he repeated that the GOK is ready to look for ways to improve controls. He noted that it is hard for embassies to carry out this supervisory function, especially in large countries. But he said that with the USG's help and with the assistance of local authorities, any information provided to

the GOK would be acted upon.

18. (C) Newcomb asked if the GOK would have a problem with designating branches of Kuwaiti charities which are operating in countries that the GOK cannot easily control; the Minister replied with a laugh that that was a tough question. The Ambassador underscored that that was why it is critical for the GOK and USG to work with local authorities as well. Al-Hajji said that personally, he would be happy to work jointly with a US delegation on investigations, but that the official GOK position may be different. Yet he repeated that his main objective was to work together to reach the common goal. He ended by asking once more that the USG not hesitate to forward to the GOK any information, and promised to act on that information.

(U) MEETING WITH CHARITABLE ORGANIZATIONS

19. (C) At the charities' request and the suggestion of the Minister of Foreign Affairs, the delegation met with representatives of local charities on October 5. In attendance were Dr. Nasser Al-Sane from the SRS (NOTE. Al-Sane is also a member of parliament. END NOTE.), Ahmad Abdulaziz Muhammad al-Falah from LDI, and Waleed Nijm Abdullah Mishari Al-Seif from IICO. Acting as spokesman for the group, Dr. Al-Sane detailed their efforts to obtain information on the designation of LDI. They had consulted with GOK officials and with the French Director of International Organizations in Paris, and asked what they needed to do to delist LDI. According to Al-Sane, the French official advised the group to put together information to demonstrate that LDI is a legitimate organization, and also to talk to the Americans. Again according to al-Sane, the French official said that if LDI could convince the Americans that LDI was not a terrorist organization, the French would not insist upon the designation.

20. (S/NF) Al-Sane said he took that opportunity to make a presentation to the French on LDI's health and other charitable projects, a copy of which he provided to the delegation. He contended that LDI is one of the more credible health and humanitarian organizations operating in Afghanistan and Pakistan, and that they also organized education programs to teach Arabic, drilled wells for water, built bakeries, mosques and hospitals, and supervised the distribution of meat from religious sacrifice rituals. Al-Sane noted that he met with Treasury U/S Taylor in November of 2002, who asked if the organization would work in Afghanistan to help with the rebuilding process, to which the organization agreed. To that end, Al-Sane said, they signed two agreements with the new Afghan government (NOTE. This was before the organization was designated. END NOTE.).

21. (S/NF) Al-Sane said that they want to trace alleged misused funds. He expressed frustration that they have not been provided with any evidence of their misdeeds. For example, he said that the French informed him that the head of the LDI office in Pakistan was affiliated with al-Qaida. However, according to Al-Sane, this man had never been in charge of the office and had no link with LDI at all. Further, he was in Qatar during the period that he was alleged to have been running the LDI office in Pakistan. Al-Sane said the French alleged that LDI has offices in Burkina Faso, Sudan, Saudi Arabia, Bahrain, Qatar and Somalia. Yet he asserted that they only have offices in Pakistan and Kuwait.

22. (S/NF) Newcomb asked if there are other groups called LDI, which Al-Sane confirmed, saying that it is a widely used name. He stressed although they may have similar names, these are not necessarily the same organization. Newcomb then asked if their activities had stopped completely, which Al-Sane confirmed. Newcomb presented them with the evidence on LDI's post-designation transfers as well as the transactions undertaken by SRS that were sent to previous LDI recipients. Al-Sane agreed that they needed to check them out, as this was the first time they had heard of the transactions. The LDI representative said that the transfers may have gone to activities that were already underway before the designation, so that the projects could be completed.

23. (S/NF) Newcomb asked directly if LDI had any offices other than the ones in Pakistan and Kuwait, specifically in Kyrgyzstan, Tajikistan, Russia, Kazakhstan, or Jordan. Contradicting Al-Sane's earlier assertion that there were only LDI branches in Pakistan and Kuwait, the LDI representative said that they do have an office in Russia. Newcomb commented that there seemed to be confusion about exactly where the offices were, which Al-Sane conceded. Al-Sane said that they would provide information on the locations of all LDI offices and asked for more information on the post-designation transactions, which Newcomb agreed to provide. Newcomb reiterated that he needed a full accounting of LDI activities, for the group to put everything on the

table; Al-Sane said that the group wanted the same thing.

124. (S/NF) Newcomb asked if LDI is a subsidiary of SRS; Al-Sane said that yes, LDI is licensed by SRS. Newcomb noted that because of this relationship, SRS is implicated as well by LDI's actions. Newcomb then asked if there were ties between SRS and IICO. The IICO representative said his organization did not have a relationship with SRS; however, the two groups have a director in common. Newcomb stressed that it is important to show the nature and breadth of the organizations, their methods of oversight, their means of hiring personnel, how they are monitored by the GOK and the like. Al-Sane said that the local branches hire their own staff and supervise the local projects themselves, and that the organization employs Ernst and Young to audit their books, which is a guarantor that the funds are going to the proper people. (NOTE. As reported in Ref B, the Foreign Minister previously indicated to Ambassador that LDI's US auditor was Baker and McKenzie. END NOTE.) Newcomb pointed out that the auditors can only audit what information they have.

125. (S/NF) Al-Sane told the delegation that the charities have no problem with additional auditing, but that they need evidence of what they have done wrong. Al-Sane said he believes that the USG's goal is to combat terrorism, not to stop humanitarian efforts. According to him, if 99% of funding is going to humanitarian programs and only 1% to improper ends, then the USG should seek to stop the 1% rather than the 99%. Newcomb responded that the USG does not differentiate in this manner, and that if even 1% is going to fund terrorism, the whole organization is considered a supporter of terrorism. Al-Sane closed by sincerely thanking the delegation, saying that this was the first information they had received on LDI's transgressions. He promised to provide additional data on the location of LDI branches outside Kuwait and on the post-designation transfers.

126. (C) COMMENT. As reported by the GOK interlocutors, the Kuwaitis have implemented several important regulatory changes to combat money laundering and terrorist financing, and to bring them in compliance with FATF and US recommendations. The steps that the new charitable oversight and supervision body is taking -- particularly in advance of Ramadan -- are notable, not only because they improve the GOK's control over donations, but because they are so politically sensitive. Cracking down on unauthorized charity kiosks and putting an end to charitable collections in the mosques carries a certain amount of risk at a time when Islamists are increasing their power in Kuwait. Yet the GOK's willingness to incur this risk demonstrates the degree to which it takes fighting terrorist financing seriously. The meeting with the charities was productive, although their inconsistency concerning the locations of LDI offices outside Kuwait tends to undermine their credibility. Their plea for more information was consistent with that of GOK officials, all of whom stressed the need for concrete details on allegations of illegal activities. Embassy will continue to monitor the issues addressed by the delegation. We look forward to receiving additional specific details on the various USG concerns for further coordination with our Kuwaiti interlocutors. END COMMENT.

127. (U) The delegation cleared this message after their departure.
JONES